COMMENTS OF THE RETAIL ENERGY SUPPLY ASSOCIATION ON THE ILLINOIS POWER AGENCY DRAFT PROCUREMENT PLAN

I. INTRODUCTION

The Retail Energy Supply Association ("RESA")[1] is a broad and diverse group of retail energy suppliers who share the common vision that competitive retail energy markets deliver a more efficient, customer-oriented outcome than a regulated utility structure. RESA is devoted to working with all stakeholders to promote vibrant and sustainable competitive retail energy markets for residential, commercial and industrial consumers. RESA has been actively working within the process established by the Illinois Commerce Commission's Office of Retail Market Development to ensure that an appropriate framework develops to foster retail competition for residential and small commercial customers. RESA appreciates this opportunity to comment on the Draft Power Procurement Plan ("Draft Plan") of the Illinois Power Agency ("IPA"), published on August 16, 2010.

II. DEFAULT SERVICE RATES SHOULD BE REFLECTIVE OF CURRENT MARKET PRICES

[1] RESA's members include ConEdison *Solutions*; Constellation NewEnergy, Inc.; Direct Energy Services, LLC; Energy Plus Holdings, LLC; Exelon Energy Company; GDF SUEZ Energy Resources NA, Inc.; Gexa Energy; Green Mountain Energy Company; Hess Corporation; Integrys Energy Services, Inc.; Just Energy; Liberty Power; PPL EnergyPlus; Reliant Energy Northeast LLC; Sempra Energy Solutions LLC. The comments expressed in this filing represent the position of RESA as an organization but may not represent the views of any particular member of RESA.

In 2008, RESA submitted comments regarding the Illinois Power Agency's ("IPA") initial draft procurement plan (the "Initial Plan"). RESA now wishes to reiterate its primary arguments during those comments – utility default service procurement should result in market reflective price signals.

RESA submits that continued progress toward a competitive electric market is the best way to help all consumers balance price risk and budget certainty while also providing innovative and customer-driven value-added services. Successful retail competition will produce downward pressure on price, offer a variety of product options for end use customers, increase conservation incentives, enhance customer service, improve environmental management and hasten the introduction of new, innovative products. Retail energy competition requires that default service pricing be properly structured; consumers must see a default price for electricity that reflects the actual market price of the electricity they consume. Without such knowledge, consumers cannot make informed and thoughtful decisions about their energy options. RESA is concerned with elements of the proposed plan that weaken the delivery of market reflective price signals to consumers. RESA encourages the IPA to evaluate any procurement methodology through the lens of the competitive marketplace and the benefits more market reflective pricing will bring to consumers — even those who don't switch to competitive electric suppliers.

Specifically, the failure of long-term procurement contracts to reflect current wholesale market prices creates inefficiencies in either direction. In the event that the company's procurement costs are higher than those available in the wholesale market, then customers are harmed by having to pay higher prices. In the event that wholesale market prices rise above the locked in utility costs, customers will receive the incorrect price signal that energy is less expensive than reality and potentially over-consume and face the risk of rate shock as those contracts end. In either case, customers will be harmed.

The use of shorter-term contracts would enable customers to see a default price that better reflects market prices with a minimization of long term contract hedging premiums and allow the IPA to more accurately predict the load it will serve. Better price signals will spur more thoughtful efficiency investments, wise energy usage, and spur development of the competitive market. Better accuracy reduces customer costs over the long term.

A major benefit of having default prices reflect the market is that consumers who are on those default rates will be sent clearer price signals that, in turn, will cause more efficient energy usage. An example of this will help illustrate the linkage between market-sensitive prices and consumer use. Consider the situation when default service prices are lower than market prices. In that instance consumers are sent the price signal that energy is less expensive than it actually is and, in response, they tend to over consume. During these periods, consumers have less of an incentive to install more energy efficient lights and other equipment, in part because the payback is longer than it would be with market-reflective prices. On the other hand, when default prices are higher than market prices, consumers are simply over-paying for the energy they use. In either of these two scenarios, customers would be better off with energy prices that reflect current market prices.

If a small retail electric customer truly wants a long-term electric supply agreement, it need not rely on the default service from the utility. Competitive suppliers can offer this option among many others. In addition, the long-term option may come in a variety of forms from a supplier versus the single fixed form available from the utility.

RESA is also interested in the stated intention in the IPA's Initial Plan concerning increasing the frequency of procurement events (Initial Plan, p. ii). RESA agrees with the Initial Plan that "a single annual procurement event increases portfolio risk by relying on market timing and by increasing the potential for bidders to exercise market power." (Initial Plan, p. ii). RESA was encouraged by the statement in the Initial Plan that the IPA intends to transition to multiple procurement cycles and, eventually to a continuous procurement cycle. Such procurement, if paired with a rate mechanism that promptly translates these new wholesale rates into retail rates, would move toward a market based procurement that uses similar timing of acquisition and contract lengths used in the competitive marketplace. The resulting prices should be more reflective of market prices and thus provide the advantages discussed above. However, the Draft Plan, the third procurement plan prepared by the IPA, has not made any progress toward a transition to multiple procurement cycles, let alone a continuous procurement cycle.

In conclusion, RESA appreciates the opportunity to make these introductory comments on the Draft Plan and looks forward to addressing this matter further in the review process to be conducted by the Illinois Commerce Commission.

Respectfully submitted,

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